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RUEHMN/AMEMBASSY MONTEVIDEO IMMEDIATE 6213
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TREASURY FOR NANCY LEE, AFAIBISHENKO, AJEWEL, WBLOCK, LTRAN
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OPIC FOR JOHN SIMON, GEORGE SCHULTZ, RUTH ANN NICASTRI
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E.O. 12958: DECL: 02/27/2017
TAGS: [EFIN](#) [ECON](#) [EINV](#) [AR](#)
SUBJECT: ARGENTINE ECONOMY MINISTER TALKS PARIS CLUB,
ECUADOR WITH A/S SHANNON

REF: A. BUENOS AIRES 140

[1](#)B. BUENOS AIRES 242

[1](#)C. BUENOS AIRES 247

Classified By: Ambassador E.A. Wayne for Reasons 1.4 (b,d)

Summary

[1](#)1. (C) Economy Minister Felisa Miceli asked for U.S. assistance to resolve Argentina's arrears situation with Paris Club creditors during a February 9 meeting with Assistant Secretary Tom Shannon. Miceli explained that Argentina's lack of an IMF agreement blocked its access to a normal Paris Club rescheduling. She said the GoA could not afford this year to pay its entire arrears (roughly \$5.5 billion arrears and late interest out of \$7.3 billion total debt), but could manage it over a longer period, similar to the recent agreement with Spain (Refs A and B). Nevertheless, the GoA is looking for a creative solution that would allow it access to Export Credit Agency (ECA) financing in 2007. A/S Shannon agreed that Argentina's situation appeared unique, and urged her to discuss it with Treasury Secretary Paulson during the upcoming IDB annual meeting in

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Guatemala. Miceli also briefed Shannon on the GoA's recent meeting with Ecuador, and stated that the GoA delegation had advised moderation in the GoE's relations with official and private creditors. She commented that Ecuador's debt situation appeared unsustainable at current tax collection levels, and expressed concern that this was undermining economic development and would complicate President Correa's efforts to govern the country. End Summary.

¶2. (C) A/S Shannon held a late evening meeting on February 9 with Economy Minister Miceli, at her request, to discuss Paris Club and the Economic Ministry's recent discussions with counterparts in Ecuador about the GoE's debt situation. Ambassador, DCM, and EconOff joined. This meeting followed on earlier meetings in late January between Economic Ministry officials in Washington with Treasury and with Ambassador Wayne in Buenos Aires (reported Ref A).

Looking for a creative solution to Paris Club woes

¶3. (C) Miceli said Argentina was at something of an impasse with the Paris Club, and asked for U.S. assistance to find a creative solution. She noted that under Paris Club rules the GoA did not qualify for normal rescheduling, due to the lack of an IMF agreement. At the same time, she argued that Argentina could not afford to pay its arrears all at once, as Paris Club creditors have strongly recommended.

¶4. (C) Miceli noted that Argentina had originally thought that it could obtain some kind of comfort letter from the IMF, to serve in place of a normal stand-by arrangement. The GoA had even received a tentative thumbs-up from Anoop Singh, Director of the IMF Western Hemisphere Department. However, subsequent meetings with Treasury and other creditors

clarified that this would be insufficient. She reiterated earlier statements that Argentina would not return to the IMF, because the GoA refuses to relinquish oversight over its economic policy. (Note: Post confirmed with IMF ResRep in Buenos Aires that Singh agreed to consider a comfort letter. End Note).

¶5. (C) Miceli acknowledged that the Paris Club secretariat and Paris Club members, including the U.S., have recommended to her that the quickest way to normalize relations with official creditors and regain access to ECA financing is to clear the arrears. However, she argued that the GoA does not have the financial wherewithal to clear the arrears all at once. (Note: outstanding arrears, late interest, and an \$835 million from Spain now total nearly \$5.5 billion, out of approximately \$7.3 billion total debt to Paris Club creditors. End Note)

¶6. (C) Miceli said the GoA could afford to pay official debt over a number of years, and suggested the recent Argentine-Spain deal as a possible model. (Note: Argentina and Spain signed a bilateral rescheduling deal on January 31 on the repayment of Spain's 2001 loan of \$835 million to the GoA. Under the terms of the agreement, the GoA will pay back the entire amount, plus interest, for a total of \$983 million, over six years. End Note)

¶7. (C) According to Miceli, Germany and France have shown interest in helping Argentina resolve the situation, primarily because they want their ECAs to support proposed infrastructure projects in Argentina (thermal power plants on the part of Germany, and high speed rail for France). Other countries, such as Spain, have also made clear their sympathies. However, Miceli said U.S. support was necessary to find a solution that would allow extended payment terms, but also allow immediate access to ECA funding. (Note: During a February 2 meeting between Finance Secretary Chodos and Treasury's Western Hemisphere Office Director, Luyen Tran, Chodos listed two motivations for resolving Paris Club: 1) political, allowing President Kirchner to declare, during the election year, that he had completed Argentina's normalization with both private and official creditors; and

2) access to ECA financing. Chodos commented that neither one alone was sufficient, and even the benefit of obtaining both would not outweigh the cost of paying the full arrears and late interest in 2007. Therefore, he argued, some kind of extended payment arrangement was essential. End Note)

18. (C) A/S Shannon agreed that Argentina's situation seemed unique, since few if any other countries in arrears to Paris Club creditors did not also have current IMF agreements. He agreed to discuss the issue in Washington, and also recommended that Miceli seek a meeting with Treasury Secretary Paulson during the 2007 annual IDB meeting in

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Guatemala (March 14-20). Ambassador Wayne commented that the key difficulty facing Argentina was that the Paris Club operated on a consensus basis, so obtaining the support of

key countries would not necessarily be sufficient for a formal Paris Club agreement. For this reason, he noted, the U.S. and GoA had recently discussed an informal solution to the situation, with Argentina paying arrears according to its own schedule (Ref A). He also reiterated the importance of U.S. Treasury's request for more information about Argentina's financing constraints, noting that this would assist the U.S. in evaluating what course to pursue.

GoA Technical Assistance to Ecuador on Debt Negotiations

19. (C) Miceli explained that she had sent Finance Secretary Chodos to Ecuador to consult with the GoE on its public debt options. This idea came out of her meeting with Ecuador's new Economic Minister, Ricardo Patino, on the margins of the Rio Mercosur summit. Miceli reassured A/S Shannon that the GoA was not exporting the Argentine method of defaulting on international obligations. Rather, the GoA's message was that Ecuador's situation was different from Argentina's in 2001, when the GoA was absolutely unable to meet its financial obligations, and Ecuador should avoid developing an antagonistic relationship with either official or private creditors.

110. (C) Miceli said that President Raphael Correa seemed well-intentioned and reasonable, and genuinely wants to change the country for the better. However, the new Economy Minister came across to her as somewhat naive, and she criticized his first inclination to declare the possibility of default. She stated that Finance Secretary Chodos warned GoE officials about the high costs of default, as Argentina expects it will take another ten years to win back the confidence of the markets. She believed the GoA's message of moderation had sunk in, as reflected in the Economy Minister's more reasonable tone following the meeting with Chodos. However, she noted the real test was whether the GoE would make its February 15 payment on to the IMF. (Note: We assume Miceli was referring to the GoE's February 15 payment on its benchmark bonds. End Note)

111. (C) Ecuador's real problem, according to Miceli was its inefficient tax collection, which was insufficient for Ecuador to pay its debts and fund government expenditures necessary for economic development. She worried that this would complicate President Correa's efforts to govern. The GoA has offered technical assistance to the GoE on public finances and tax collection. Miceli also commented that the GoA had spoken to other countries, including Venezuela, about providing assistance to Ecuador.

112. (C) A/S Shannon thanked Miceli for Argentina's reasoned advice to Ecuador, noting that the U.S.'s fear was that Ecuador would clash with the financial community, leading to internal economic and political chaos -- beyond the help of the international community. He commented that President Correa needed to understand that many in the countries, including the U.S., were interested in helping Ecuador, and he should not begin his Presidency by closing doors.

¶13. (U) A/S Shannon did not have the opportunity to clear on this message.
WAYNE